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Independent Auditors' Report

Members of the Legislative Audit Committee:

We have audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the business-type activities and the discretely presented component unit of the Colorado State University System (the System), a component unit of the State of Colorado, as of and for the years then ended June 30, 2006 and 2005, and have issued our report thereon dated October 13, 2006. We did not audit the financial statements of the Colorado State University Foundation, the discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the reports of other auditors.

In connection with our audit, nothing came to our attention that caused us to believe that the System failed to comply with the terms, covenants, provisions, or conditions of the respective Authorizing Bond Resolutions and the Official Statements (collectively, bond resolutions) insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

In accordance with the respective bond resolutions discussed above, a calculation of each bond's earnings requirement is shown on pages 86 through 90.

This report is intended solely for the information and use of the Legislative Audit Committee, the Office of the State Auditor, the Board of Governors, the Audit Committee, and the System's management, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 13, 2006



COLORADO STATE UNIVERSITY SYSTEM
Revenue Bonds' Earnings Requirements Schedules
June 30, 2006

Colorado State University (CSU) Research Building Revolving Fund Enterprise Revenue Bonds

The following information is presented in accordance with the bond resolutions of the 1997, 2001, and 2005A Series Research Building Revolving Fund Enterprise Revenue Bonds.

For the purposes of determining compliance with the bond resolution, earnings are computed as follows:

Auxiliary revenues	\$	3,603,447
Add interest from the Research Building Revolving Fund		121,527
Net auxiliary revenues		3,724,974
Indirect cost recoveries not credited to bond fund		35,298,815
Total pledged revenue		39,023,789
Operating expenses		1,959,319
Add back:		
Noncapital plant facilities expenses		(179,400)
Depreciation expense		(55,711)
Net income to meet requirement under the bond resolution	\$	37,299,581
Net income required under the bond resolution:		
Current year principal and interest payments	\$	1,792,975
Minimum earnings ratio required by bond resolution and parity obligation		150%
Net income required under the bond resolution	\$	2,689,463

The earnings requirement shown above exceeds the required amount by the bond resolution and parity obligations. Per the bond resolution, pledged revenues include to the extent necessary, amounts accruing to CSU from indirect cost recoveries on research contracts and grants performed under the auspices of CSU within all facilities of CSU.

CSU Enterprise System Revenue and Refunding Bonds

The following information is presented in accordance with the bond resolutions of the Enterprise System Refunding and Improvement Revenue Bonds (including Auxiliary Facilities Refunding and Improvement Revenue Bonds and Student Sports Recreational Facilities Revenue Bonds). Below are calculations of the earnings requirement for meeting the following bond resolutions: a) CSU Enterprise System Refunding and Revenue Bonds, Series 2003A, 2003B, and 2005B which reports the earnings of the entire Enterprise System net of the revenues and expenses earned and expensed between the Auxiliary Facilities and the Student Sports Recreational Facilities; b) Auxiliary Facilities Revenue Bonds, Series 1996 and 1997; and c) Student Sports Recreational Facilities Revenue Bonds, Series 1998.

Unaudited – See accompanying independent auditors' report

COLORADO STATE UNIVERSITY SYSTEM

Revenue Bonds' Earnings Requirements Schedules

June 30, 2006

- a) The bond resolutions require that earnings be calculated after the payment of the bond maturities for the prior year of the Auxiliary Facilities and the Student Sports Recreational Facilities bonds. For the purposes of determining compliance with the bond resolution, earnings for CSU Enterprise System are computed as follows:

Auxiliary revenues	\$ 76,712,404
Add:	
Investment income from investment funds	802,738
Transferable interest income from plant funds	256,765
	<u>77,771,907</u>
Less old series bond obligations and new bonds operating expenses:	
Operating expenses	73,956,815
Less plant facilities expenses	(1,907,464)
Less depreciation expense	(3,309,214)
Less excluded equipment expenditures	(209,125)
Less compensated absences adjustment	(191,484)
	<u>68,339,528</u>
Principal and interest payments on old bond series	<u>3,154,433</u>
	<u>71,493,961</u>
Net income to meet requirement under the bond resolution	\$ <u>6,277,946</u>
Net income required under the bond resolution:	
Current year principal and interest payments	\$ 4,060,981
Minimum earnings ratio required by bond resolution	<u>100%</u>
Net income required under the bond resolution	\$ <u>4,060,981</u>

The net income for earnings requirement shown above exceeds the required amount.

Unaudited – See accompanying independent auditors' report

COLORADO STATE UNIVERSITY SYSTEM
Revenue Bonds' Earnings Requirements Schedules
June 30, 2006

(b) For the purposes of determining compliance with the bond resolution, earnings for the Auxiliary Facilities are computed as follows:

Auxiliary revenues		\$ 72,487,507
Add:		
Investment income from investment funds		760,563
Transferable interest income from plant funds		146,398
		73,394,468
Unrestricted expenses		65,620,791
Less:		
Excluded equipment expenditures		(187,940)
Compensated absences adjustment		(151,267)
		65,281,584
Net income to meet requirement under the bond resolution		\$ 8,112,884
Net income required under the bond resolution:		
Current year principal and interest payments		\$ 2,923,900
Minimum earnings ratio required by bond resolution		125%
Net income required under the bond resolution		\$ 3,654,875

The net income for earnings requirement shown above exceeds the required amount.

Unaudited – See accompanying independent auditors' report

COLORADO STATE UNIVERSITY SYSTEM

Revenue Bonds' Earnings Requirements Schedules

June 30, 2006

- c) For the purposes of determining compliance with the bond resolution, earnings for the Student Sports Recreational Facilities are computed as follows:

Auxiliary revenues	\$	4,224,897
Add:		
Investment income from investment funds		42,175
Transferable interest income from plant funds		110,367
		<u>4,377,439</u>
Unrestricted expenses		3,119,345
Less:		
Excluded equipment expenditures		(21,185)
Compensated absences adjustment		(40,217)
		<u>3,057,943</u>
Net income to meet requirement under the bond resolution	\$	<u>1,319,496</u>
Net income required under the bond resolution:		
Current year principal and interest payments	\$	230,533
Minimum earnings ratio required by bond resolution		125%
Net income required under the bond resolution	\$	<u>288,166</u>

The net income for earnings requirement shown above exceeds the required amount.

Unaudited – See accompanying independent auditors' report

COLORADO STATE UNIVERSITY SYSTEM

Revenue Bonds' Earnings Requirements Schedules

June 30, 2006

Colorado State University – Pueblo (CSUP) Auxiliary Facilities Enterprise Refunding and Improvement Revenue Bonds

The following information is presented in accordance with the 2003 Series CSUP Auxiliary Facility Enterprise Refunding and Improvement Revenue Bonds. Determination of debt service coverage, as specified in the bond resolutions, requires certain adjustments from amounts reported in accordance with accounting principles generally accepted in the United States of America. The minimum excess requirements are computed as 125% of the combined principal and interest payments on the Series 2003 bonds due during the fiscal year.

Gross revenue	\$ 8,821,867
Less general operating expenses	<u>(6,954,047)</u>
Available net revenue	<u>1,867,820</u>
Debt service requirement	506,263
	<u>125%</u>
Minimum excess requirement	<u>632,829</u>
Excess of available net revenue over minimum excess requirement	<u>\$ 1,234,991</u>

Unaudited – See accompanying independent auditors' report

COLORADO STATE UNIVERSITY SYSTEM

State-Funded Student Financial Assistance Programs

Introduction

Year ended June 30, 2006

Introduction

Colorado State University System (the System) comprises two state-supported institutions of higher education:

- Colorado State University (CSU) located in Fort Collins
- Colorado State University – Pueblo (CSUP) located in Pueblo.

The financial and compliance audit of the State-funded student financial assistance programs at the System for the fiscal year ended June 30, 2006 was directed toward the objectives and criteria set forth in the Colorado Commission on Higher Education (CCHE) Financial Aid Policy, adopted in April 2002. The state student financial assistance programs were examined simultaneously with the federal aid programs for the year ended June 30, 2006.

State-Funded Student Financial Assistance Programs

Institutional participation in the various State-funded student financial assistance programs is illustrated as follows:

<u>State-Funded Student Assistance Program</u>	<u>CSU</u>	<u>CSUP</u>
Colorado Leverage Education Assistance Program	X	X
Colorado Student Grant Program	X	X
Colorado Work-Study Program	X	X
Merit Award Program	X	X
Perkins and Health Professionals Student Loans Matching Program	X	X
Governor’s Opportunity Scholarship	X	X

The State-funded student financial assistance awards made by the institutions during fiscal years 2006 and 2005 and total State-funded matching funds transferred to Perkins Student Loan Fund were as follows:

	<u>Fiscal year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
State-Funded Student Financial Assistance Awards:		
Colorado State University	\$ 6,650,000	7,010,000
Colorado State University – Pueblo	2,961,000	3,026,000
Perkins and Health Professionals Student Loans Matching Program:		
Colorado State University	1,000	42,000
Colorado State University – Pueblo	—	36,000